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FISCAL IMPACT STATEMENT

LS 6597

BILL NUMBER: HB 1004

NOTE PREPARED: Jan 13, 2004

BILL AMENDED:

SUBJECT: Older Homestead Standard Deduction.

FIRST AUTHOR: Rep. Pflum

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues	(32,000)	(63,000)	(63,000)
State Expenditures	(7,900,000)	(17,600,000)	(5,200,000)
Net Increase (Decrease)	7,868,000	17,537,000	5,137,000

LOCAL IMPACT	CY 2004	CY 2005	CY 2006
Local Revenues	(67,900,000)		
Local Expenditures			
Net Increase (Decrease)	(67,900,000)		

Summary of Legislation: This bill establishes an additional homestead deduction for older homes.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) This bill would reduce state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits by an estimated **\$7.9 M in FY 2004, \$17.6 M in FY 2005, and \$5.2 M each year thereafter.** These amounts are composed of the following.

The historical deduction in this proposal would cause a reduction in homesteaders' property tax bills which would result in a savings of Homestead Credit expenditures. The savings are estimated at \$1.9 M in FY 2004, \$5.3 M in FY 2005, and \$4.2 M in all other years.

The deduction would cause a reduction in collected property taxes in CY 2004 and would also cause part of homeowners' tax burdens to be shifted to business personal property beginning in CY 2005. The state pays the 60% school general fund PTRC on all property, however, business personal property does not qualify for the regular 20% PTRC. The state's expense for all PTRC in CY 2004 and the 20% regular PTRC beginning in CY 2005 would be reduced by an estimated \$6.0 M in FY 2004, \$12.3 M in FY 2005, and \$965,000 in all other years.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented by the state General Fund. Any savings of expenditures for these credits would ultimately benefit the state General Fund.

Explanation of State Revenues: (Revised) The AV reduction resulting from the new historical deduction would cause a reduction in revenue for the State Fair and State Forestry Funds. **The reduction is estimated at about \$32,000 in FY 2004 and \$63,000 in all other years.**

Explanation of Local Expenditures: There are 10 counties that currently provide a locally funded homestead credit. These counties include Allen, Madison, Marion, Miami, Monroe, Perry, St. Joseph, Spencer, Tippecanoe, and Vanderburgh. The new deduction in this bill will reduce homesteaders' property tax bills which would result in a small savings of locally provided homestead credit expenditures.

Local homestead credit is paid for with County Option Income Tax (COIT) proceeds. The amount of COIT revenue available for distribution to local civil taxing units is reduced by the amount spent for local homestead credits. Any local homestead credit savings would, therefore, increase distributions to the civil taxing units in these counties.

Explanation of Local Revenues: (Revised) Under this proposal, homesteads that are more than 100 years old would qualify for a \$9,000 AV deduction. Homesteads that are between 50 years and 100 years old would qualify for a \$4,500 deduction. This deduction would first be available for taxes paid in CY 2004.

Based on available 2003 property tax parcel record data received to date, it was estimated that as many as 450,500 homesteads would qualify for the \$4,500 deduction, while 66,800 homesteads would qualify for the \$9,000 deduction. The total deduction amount is estimated at \$2.63 B AV.

In CY 2004, the increased deductions will create a revenue loss for local units of government. IC 6-1.1-17-16 directs the DLGF to certify property tax rates, levies, and budgets by no later than February 15th each year. If the effective date of this bill occurs after February 15, 2004, it would be too late to recalculate 2004 tax rates based on the additional deduction in Pay 2004. This would cause a revenue loss for local civil units and school corporations in CY 2004. **Assuming all counties' 2004 tax rates are set by the statutory date, the statewide revenue loss is estimated to be about \$67.9 M in CY 2004 only.** School corporations may appeal for a shortfall levy in their general and transportation operating funds under IC 6-1.1-19-4.7. Civil units may not appeal for a shortfall levy for this purpose.

In CY 2005 and later, this proposal would cause a shift of part of the property tax burden from homeowners to all property owners in the form of a higher tax rate. A portion of the shift, as much as 30%, would fall back

onto homesteaders as they too would pay the higher tax rate. **The net tax shift from these additional deductions is estimated at about \$36.5 M in CY 2005 and \$35.4 M per year thereafter.** Beginning in CY 2005, total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected:

Local Agencies Affected: Local civil taxing units and school corporations; County auditors.

Information Sources: County property tax parcel record data; Local Government Database.

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